

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 PA-02 PRS-01 /105 W

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R 271734Z APR 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 8400

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 07051

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING APRIL 27)

REF.: BONN 6262

1. SUMMARY: MONEY MARKET INTEREST RATES ARE CURRENTLY QUITE LOW, OWING TO AN ABUNDANCE OF LIQUIDITY IN THE BANKING SYSTEM. OBSERVERS PREDICT THIS CONDITION WILL CONTINUE ALBEIT AT HIGHER RATES AS BANKS ADJUST TO MAY RESERVE REQUIREMENTS. BUNDESBANK RESERVES ARE DOWN DM 500 MILLION AND DOLLAR/DM EXCHANGE RATE HOLDS STEADY.

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2. FOREIGN EXCHANGE MARKET: THE POSITION OF THE DOLLAR

AGAINST THE DEUTSCHEMARK REMAINS VIRTUALLY UNCHANGED SINCE EASTER. ON FRIDAY, APRIL 23, THE DOLLAR STRENGTHENED SLIGHTLY, OPENING AT DM 2.5385, INCREASING TO A HIGH OF DM 2.5440 AND CLOSING AT DM 2.5390. ON MONDAY, APRIL 26 IT AGAIN WEAKENED OPENING AT DM 2.5370, INCREASING TO DM 2.5400 AND CLOSING AT DM 2.5370. . ON TUESDAY, APRIL 27 THE DOLLAR OPENED AT DM 2.5400 AND WAS FIXED AT DM 2.5384. THE STRENGTHENING OF THE DOLLAR ON FRIDAY MAY BE ACCOUNTED FOR BY THE EASING OF THE GERMAN MONEY MARKETS (SEE PARAGRAPH 5). HOWEVER, SUBSEQUENT PUBLICATION OF THE FAVORABLE GERMAN TRADE RESULTS FOR MARCH AND THE U.S. MARCH TRADE DEFICIT APPEARS TO HAVE TEMPORARILY NEGATED STRENGTHENING EFFECTS OF DECLINING GERMAN INTEREST RATES. DURING THE REPORTING WEEK, SPOT (FRANKFURT FIXING RATE) AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS (DISCOUNTS IN PCT.P.A.)				
SPOT DOLLARS	ONE-MONTH	THREE-MONTH		
APR 20	DM 2.5322	-1.9	-2.1	
21	2.5370	-1.7	-2.1	
22	2.5344	-1.8	-2.1	
23	2.5430	-2.4	-2.1	
26	2.5371	-2.4	-2.1	
27	2.5384	N.A.H	N.A.	

3. WITHIN THE JOINT FLOAT, THE DEUTSCHEMARK STRENGTHENED SOMEWHAT AGAINST BOTH DANISH AND NORWEGIAN CROWNS BUT REMAINED STABLE AGAINST THE OTHER THREE SNAKE CURRENCIES. ALL SNAKE CURRENCIES ARE CURRENTLY WELL ABOVE THE LOWER DEUTSCHEMARK INTERVENTION POINTS RANGING, ON APRIL 26, FROM A LOW OF 0.6 PERCENT ABOVE FOR DUTCH GUILDERS AND BELGIAN FRANCS TO A HIGH OF 1.3 PERCENT ABOVE FOR DANISH CROWNS. PRESS REPORTS OF THE LUXEMBOURG MEETING OF EC FINANCE MINISTERS AND CENTRAL BANK GOVERNORS INDICATE THAT THE BUNDESBANK HAD AGREED TO POSTPONE THE SETTLEMENT DATE FOR DEUTSCHEMARK INTERVENTIONS IN FAVOR OF DANISH CROWNS FROM APRIL AND MAY, RESPECTIVELY, TO JUNE.

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THE PRESS FURTHER REPORTS THAT THE BUNDESBANK EVEN OFFERED TO DELAY SETTLEMENT UNTIL OCTOBER BUT THE DANISH GOVERNMENT CHOSE NOT TO MAKE USE OF THIS OFFER.

4. LIMITATIONS ON EXCHANGE OF LARGE LIRA NOTES:
ACCORDING TO REPORTS OF THE GERMWN PRESS, FINANCE MINISTER APEL WHILE IN LUXEMBOURG SUGGESTED THAT THE EC MEMBER COUNTRIES CONSIDER INTRODUCING LIMITATIONS ON THE IM-

PORTS OF LARGE LIRA NOTES, FOLLOWING THE SWISS EXAMPLE.
ACCORDING TO APEL, THE CENTRAL BANK GOVERNORS OF THE EC
COUNTRIES HAVE DISCUSSED POSSIBILITIES FOR SUCH A
LIMITATION. ACCORDING TO A DPA REPORT, ON APRIL 27,
THE BUNDESBANK, IN A LETTER TO GERMAN BANKS, RECOMMENDED
THAT BANKS SHOULD NO LONGER CONVERT 50,000 OR 100,000
LIRA NOTES INTO DEUTSCHEMWRKS.

5. MONEY MARKET: THE GERMAN MONEY MWRKET EASED SUB-

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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FM AMEMBASSY BONN

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INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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STANTIALY AFTER EASTER. CALL MONEY DECLINED TO 1-1 1/2
PERCENT, WHICH IS 2-2 1/2 PERCENT BELOW THE REDISCOUNT

RATE. DATES FOR ONE AND THREE-MONTH MONEY ALSO DECLINED SLIGHTLY. THE EASING APPEARS TO BE DUE TO THE FACT THAT BEFORE AND DURING EASTER GERMAN BANKS HELD RELATIVELY LARGE SUPPLUS RESERVES AT THE BUNDESBANK. SINCE GERMAN BANKS HAVE TO MAINTAIN RESERVE REQUIREMENTS ONLY ON AVERAGE DAILY BASIS (INCLUDING HOLIDAYS) BANKS NOW HAVE A LARGER LENDING CAPACITY AND ARE ANXIOUS TO GENERATE EARNING. DURING THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY
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APR 20	3.0-3.2	3.50	3.60
21	2.7-3.0	3.50	3.60
22	2.4-2.6	3.50	3.60
23	1.5-2.0	3.35	3.50
26	1.0-1.5	3.35	3.45

6. LAMBSDORFF RECOMMENDS MEASURES TO ABSORB LIQUIDITY: THE SPOKESMAN OF THE FDP BUNDESTAG FACTION FOR ECONOMIC POLICY, GRAF LAMBSDORFF, STATED THAT THE INTERNATIONAL MONETARY SITUATION HAS APPARENTLY CALMED DOWN. IN VIEW OF THIS, THE BUNDESBANK SHOULD NOW BEGIN TO ABSORB NEWLY CREATED LIQUIDITY SINCE THIS ADDITIONAL LIQUIDITY MAY RESULT IN PRICE INCREASES, WHICH SHOULD BE AVOIDED.

7. MARCH GERMAN CURRENT ACCOUNT BALANCE: IN MARCH GERMAN EXPORTS AMOUNTED TO DM 22.8 BILLION AND IMPORTS TO DM 19.0 BILLION RESULTING IN A TRADE SURPLUS OF DM 3.9 BILLION. THIS COMPARES WITH TRADE SURPLUSES OF DM 2.2 BILLION IN FEBRUARY 1976 AND DM 3.4 BILLION IN MARCH 1975. AS COMPARED WITH MARCH 1975, IMPORTS INCREASED BY 35 PERCENT AND EXPORTS BY 30 PERCENT. THE CURRENT ACCOUNT BALANCE WAS DM 1.9 BILLION IN SURPLUS OWNING TO A NET INVISIBLES DEFICIT (INCLUDING SUPPLEMENTS TO TRADE) OF DM 2.0 BILLION (PRELIMINARY). IN THE FIRST QUARTER OF 1976 EXPORTS TOTALLED DM 60.4 BILLION AND IMPORTS DM 51.8 BILLION, PRODUCING A TRADE SURPLUS OF DM 8.6 BILLION AS COMPARED WITH DM 10.6 BILLION IN THE FIRST QUARTER OF 1975. THE CURRENT ACCOUNT BALANCE WAS IN SURPLUS BY DM 2.7 BILLION RESULTING FROM THE ABOVE DM 8.6 BILLION TRADE SURPLUS, A DM 1.7 BILLION SERVICES DEFICIT (INCLUDING TRADE SUPPLEMENTS) AND A DM 4.1 BILLION TRANSFERS DEFICIT. IN THE FIRST QUARTER OF 1975 THE CURRENT ACCOUNT BALANCE WAS IN SURPLUS BY DM 5.2 BILLION.

8. MONETARY RESERVES: IN THE PERIOD APRIL 8-15, THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.5 BILLION TO DM 93.5 BILLION. ACCORDING TO BUNDESBANK

REPORTS, THE DECLINE RESULTED FROM PAYMENTS BY THE
FEDERAL GOVERNMENT TO THE EEC AND FROM OTHER GOVERN-
MENT TRANSACTIONS BUT NOT FROM BUNDESBANK INTERVENTIONS
IN FOREIGN EXCHANGE MARKETS. GERMANY'S IMF POSITION
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INCREASED BY DM 170 MILLION REFLECTING A DM 37 MILLION
INCREASE IN GERMANY'S GOLD TRANCHE POSITION AND A
DM 133 MILLION INCREASE IN CREDITS TO THE IMF GRANTED
UNDER SPECIAL ARRANGEMENTS. HOLDINGS OF FOREIGN
EXCHANGE DECLINED BY DM 31 MILLION AND CLAIMS ON THE
EUROPEAN FUND FOR MONETARY COOPERATION DECREASED BY
DM 64 MILLION. GROSS LIABILITIES INCREASED BY ABOUT
DM 570 MILLION.

9. BANK LIQUIDITY: IN THE PERIOD APRIL 8-15 BANK
LIQUIDITY INCREASED BY DM 0.5 BILLION. BASIC FACTORS
INCREASING LIQUIDITY WERE DECREASES OF DM 1.0 BILLION
IN BUNDESPOST ASSETS HELD AT THE BUNDESBANK AND OF

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ACTION EUR-12

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TO SECSTATE WASHDC 8402

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON
AMEMBASSY PARIS
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DM 0.7 BILLION IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. OTHER FACTORS, NET, INCREASED LIQUIDITY BY DM 0.2 BILLION. FACTORS REDUCING LIQUIDITY WERE THE ABOVE-MENTIONED DECLINE IN THE BUNDESBANK'S FOREIGN POSITION AND A DM 0.9 BILLION INCREASE IN CURRENCY IN CIRCULATION, PROBABLY DUE TO THE EASTER HOLIDAYS. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE RE-DISCOUNT BORROWINGS AT THE BUNDESBANK.

10. BOND MARKET: IN MARCH, GROSS SALES OF DOMESTIC BONDS AMOUNTED TO DM 6.8 BILLION AS COMPARED WITH DM 7.0 BILLION IN FEBRUARY 1976 AND DM 5.1 BILLION IN MARCH 1975. NET SALES OF BONDS (GROSS SALES MINUS RE-UNCLASSIFIED

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DEMPCTIONS) AMOUNTED TO DM 5.1 BILLION AS COMPARED WITH DM 5.0 BILLION IN FEBRUARY 1976 AND DM 3.4 BILLION IN MARCH 1975. INCLUDING CHANGES IN THE BANKS' HOLDINGS OF BONDS AND SALES OF BONDS BY THE BUNDESBANK IN MARCH NET SALES TOTALLED DM 6.3 BILLION AS COMPARED WITH DM 5.2 BILLION IN FEBRUARY. SALES OF BONDS WITH MATURITIES BELOW 4 YEARS AMOUNTED ONLY TO ABOUT ONE EIGHTH OF TOTAL GROSS SALES AS COMPARED WITH ABOUT ONE FIFTH IN FEBRUARY AND ONE THIRD IN JANUARY. THE BULK OF BONDS SOLD (DM 4.9 BILLION, GROSS) WERE AGAIN BONDS OF PUBLIC AUTHORITIES (INCLUDING COMMUNAL BONDS ISSUED TO REFINANCE CREDITS TO MUNICIPALITIES.)

11. SINCE OUR LAST REPORT ON BOND MARKET DEVELOPMENTS (SEE BONN 6262, PARAGRAPH 10), YIELDS OF OUTSTANDING DOMESTIC BONDS REMAINED UNCHANGED. THUS, THE TREND TOWARDS DECLINING BOND YIELDS SINCE MID-1974 APPEARS TO HAVE ENDED. THE BASIC FACTOR FOR THIS MAY BE THAT POTENTIAL INVESTORS CURRENTLY FEEL THAT BOND YIELDS WILL NOT FURTHER DECLINE BUT, AFTER SOME TIME, MAY EVEN INCREASE. ACCORDING TO PRESS REPORTS, THE FRG HAS POSTPONED THE ISSUANCE OF A FEDERAL LOAN FROM APRIL TO SOMETIME IN MAY.

12. FOREIGN DM LOANS: THE FOLLOWING FOREIGN BORROWERS ARE PLANNING TO OFFER FOREIGN DM LOANS ON THE GERMAN MARKET: IBRD (DM 300 MILLION; COUPON 7 1/2 PERCENT; MATURITY 7 YEARS; ISSUE PRICE PROBABLY 99 1/2), EUROPEAN COUNCIL (DM 60 MILLION; 7 3/4 PERCENT; 7 YEARS), THE NORWEGIAN NORGES COMMUNAL BANK (DM 100 MILLION; 7 PERCENT; 5 YEARS), THE NORWEGIAN NORPIPE (DM 100 MILLION), AND THE JAPANESE CITY OF KOBE (DM 100 MILLION).

13. ECONOMIC INDICATORS PUBLISHED THIS WEEK: THE ECONOMICS MINISTRY NOW HAS REVISED ITS 1976 GNP PROJECTION UPWARD TO 6 PERCENT REAL GROWTH OVER 1975 (TO BE REPORTED SEPARATELY). ACCORDING TO BUNDESBANK SEASONALLY-ADJUSTED DATA, THE VOLUME OF EXPORTS IN JANUARY 1976 WAS DM 15.29 BILLION; THE VOLUME OF IMPORTS IN JANUARY CAME TO DM 13.12 BILLION. BUILDING PERMITS FOR HOUSING UNITS IN JANUARY 1976 CAME TO UNCLASSIFIED

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28,041 -- 1,700 OR 5.7 PERCENT LESS THAN IN DECEMBER 1975 BUT 5,955 OR 27 PERCENT MORE THAN IN JANUARY 1975. THE NUMBER OF NEW PASSENGER CARS REGISTERED IN MARCH 1976 CAME TO 271,310, VERSUS 194,710 IN FEBRUARY 1976 AND 207,110 IN MARCH 1975. HILLENBRAND

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